

BILDERBERG MEETINGS

SALTSJÖBADEN, 11-13 May 1973

Confidential

GUIDELINES FOR A EUROPEAN ENERGY POLICY AND
ITS CONSEQUENCES ON RELATIONS BETWEEN EUROPE
AND NORTH AMERICA

by FERNAND SPAAK

Introduction

Energy is becoming a topic of growing interest for all the citizens of our countries. Barely a day goes by without some reference in the press to energy problems in the short, medium or long term, and to their most diverse aspects (economic, technological, ecological, geopolitical, etc.).

Generally speaking, there is fairly widespread agreement as to why the energy situation is disturbing or alarming, and the relevant figures, at least in their order of magnitude, are known. Barring details, therefore, diagnoses of the energy trend differ little. The main problem is what treatment to apply: it will require both an effort of imagination to avoid lapsing into fatalism, and a strong sense of realism to guard against a Utopian approach.

This is the spirit in which we must examine the guidelines and principles of a common energy policy for the Community, and then investigate whether and how the main energy consuming countries can cooperate with each other.

I. The Community energy policy

Mapping out a Community energy policy is a long-term task. So far it has slowly produced a series of specific measures, but it now needs a new impetus born of an overall vision.

A. Gradual materialization of the Community energy policy

The ECSC and Euratom Treaties having dealt specifically with coal and nuclear energy, the Rome Treaty contained no special provisions for energy as it did for agriculture and transport. This lack of concern about a common energy policy was explained, if not justified, by a world situation in which energy was plentiful and readily available.

During the first ten years of the Rome Treaty, however, the idea of a common energy policy gradually took shape. In April 1964, the protocol of agreement of the Council of Ministers on energy policy, and in December 1968 the Commission memorandum "First Guidelines for a Community Energy Policy" made a detailed inventory of the principles and objectives which should guide European activity in the energy field.

Specific measures such as the system of aids for coal and the 1968 regulation obliging Member States to accumulate oil stocks equivalent to 65 days' use, and also the establishment of a framework of action comprising reports on the short-term economic situation, and medium-term guidelines or forecasts for the various sectors, then emerged as the necessary preliminaries to an energy policy.

More recent proposals such as those for the extension of the joint enterprise system to the hydrocarbon sector, the setting up of European uranium enrichment facilities, the increase of compulsory oil stocks from 65 to 90 days, the introduction of a harmonized system to combat the effects of momentary interruptions in supplies and the establishment of import arrangements for hydrocarbons all confirm the development of the Community energy policy. This will also be facilitated by last year's Council regulations on the notification of hydrocarbon imports and planned investments in the electricity and hydrocarbon sectors.

B. Fresh impetus for the Community energy policy

The enlargement of the Community offers a new opportunity for emergent Europe to assert its personality. There are numerous areas of activity in which greater European initiative could be developed and the energy sector may legitimately be included among them.

1. The reasons

The reasons which in the past two or three years have led to a new attitude to energy problems, both at world level and in the Community, are known. There are many of them, ranging from the increasingly effective and diverse ways in which the oil producing countries are

directly influencing energy patterns, to concern - springing from the present debate on the quality life - that energy industries should respect the environment, and finally the anxiety - albeit tinged with occasional ambiguity and ulterior motive - about the world's energy supplies in the year 2000, or even in 1985.

In other words, although energy problems are still closely bound up with technical and economic factors, they are taking on an increasing and definitely political colour. The leaders of our countries, whatever their avowed principles of economic philosophy, can no longer avoid seeing this complex problem in a general and therefore political context.

The European Economic Community, heavily dependent on the outside world for its energy supplies, cannot evade the problem without the risk of imperilling its own subsequent development. It is therefore comforting and encouraging that, at the Paris meeting in October 1972, the Heads of State or Government of the enlarged Community deemed it necessary to ask the Community institutions to draw up, at their earliest opportunity, an energy policy to ensure reliable long-term supplies on satisfactory economic terms. It is no less encouraging and significant that a meeting of the Council of Ministers devoted exclusively to energy problems is to be held in Brussels at the end of May.

The Commission's main present concern - as its latest proposals show - is the question of supplies.

2. New objectives of the Community energy policy

The requisite progress in the Community energy policy will call for:

- (a) systematic attention to the major problems arising from present trends;
- (b) recognition of the priority of supply strategy;

./..

(c) equipment of the Community institutions with certain means of control..

(a) General problems

No energy policy can be conceived today which does not consider and attempt to solve the following types of problem:

- (i) ensuring respect for the environment by means of research projects on the limitation or elimination of pollution caused by the production, transport, storage and consumption of energy, these projects to be incorporated in the Commission's general plan of action on the environment;
- (ii) encouraging more rational use of energy (recovery of residual heat from heat conversion operations in urban heating plants; better heat insulation, etc.) in order to reduce the problems of supply and environmental protection and offset the potential increase in the cost of energy;
- (iii) promoting scientific and technical research with a view to more efficient production and use of energy, and the discovery of new sources of energy, new resources, or ways of using resources already known;
- (iv) establishing or developing contacts between the Community and other energy importing countries with a view to better mutual information and the adoption of joint solutions;
- (v) improving economic and social cooperation with the energy exporting countries in all spheres of common interest on the basis of mutual benefit, in order to promote the aim of stable relations between equal partners.

(b) Priority measures on supplies

The Community's main problem in the energy sector is to ensure reliable supplies on a market which is becoming increasingly uncertain. The

energy supply trend must therefore be carefully watched and, if necessary, directed from a Community standpoint. Apart from the problem of finding the necessary capital for very considerable investments, this means that the Community must not only supervise the conditions of competition but also be able, where appropriate, to influence the competitive positions of the various forms of energy.

Concrete measures are most pressing in the following fields:

- (i) mutual information
- (ii) reliable supply sources
- (iii) crisis arrangements and stockpiling
- (iv) smooth functioning of the common market
- (v) structural problems in energy industries
- (vi) common import system.

Mutual information

The information which has been obtained, pursuant to the Council regulations of 1972, on imports of hydrocarbons, on investments and on foreseeable trends in these two fields, must be supplemented by information on prospecting for hydrocarbons, on the gas industry and on uranium reserves and resources. Among other things, this will give the Community a better idea of the prospects for developing and using the large hydrocarbon reserves in the North Sea.

Reliable supply sources

In the coal sector, an urgent decision is needed on the implementation of a new system of aids to coking coal to help maintain its production in the Community. It is also urgent to begin examining the problems of maintaining a coal consumption capacity in power plants, as part of a general policy for power plant fuel supplies. As with the previous point, the importance of this study is heightened by the existence of a major coal industry in Great Britain.

With regard to hydrocarbons, the object must be to encourage prospecting on Community territory or territories considered as reliable, and if not to establish the principle of Community priority for supplies of natural gas tapped from its own soil, including the continental shelf, then at least to prevent national export restrictions contrary to the Treaty of Rome.

As regards nuclear energy, it will be necessary to make use of the facilities offered by the treaties and to adopt measures on nuclear fuel supplies, and especially the establishment of European uranium enrichment plants.

Measures to overcome supply difficulties

In addition to harmonizing and preparing measures to be taken when oil crises occur, it is important to continue developing a Community policy on the stockpiling of oil products, by harmonizing the policies of Member States and encouraging projects of Community interest.

Concrete proposals must also be drawn up on the stockpiling of Community or imported coal, and also of fuels for conventional power plants and natural or enriched uranium.

Smooth functioning of the common market

Smooth functioning cannot be ensured without first of all solving certain general problems such as the liberalization of public works contracts, the notification of intended mergers, and direct and indirect taxation in the energy sector.

In the oil sector, it will be necessary to harmonize price arrangements and to remove technical obstacles to trade.

In the electricity and nuclear energy sectors, there must be better coordination of national development programmes and policies and an alignment of safety criteria and technical standards, as well as national

laws and procedures on the siting of power plants and the award of licences for electricity production, transmission and distribution. Finally, national and Community regulations on nuclear plant safety must be combined and coordinated.

Structure of the energy industry

A considerable step forward will be achieved in this field with the notification of intended mergers and the solution of problems connected with direct taxation. Furthermore, information obtained in matter of investments will enable the Community to follow the structural development of the energy industry.

Common import arrangements

The Community must rapidly establish import arrangements for oil products and a definition of origin for these products. Implementing procedures will depend on particular market conditions.

(c) Establishment of Community means of control

First of all the Community must be informed as fully as possible about the situation of the energy market. In addition to the ways and means already enumerated, the Commission is therefore now setting up a system of regular price surveys for the various energy products.

The Community must also have means of coordinating national measures, whether these already exist, as in the coal sector, or are still at the discussion stage (e.g., the proposed directive on measures to lessen the impact of hydrocarbon supply difficulties). Coordination is also possible in other fields, particularly scientific and technical research, on the basis of a survey of all the energy research under way in the Community.

Finally, with regard to Community action, the Commission has already presented the regulation on joint hydrocarbon undertakings which will

shortly constitute an appropriate framework for encouraging major research schemes in the hydrocarbon sector or oil stockpiling projects, thus helping to solve supply problems and to establish the common market.

Reference has already been made to a proposal for import arrangements for oil products, which must be backed by a definition of origin of these products.

Finally, specific measures are planned in connection with financing of nuclear projects.

The emphasis laid, at perhaps too great a length, on the way in which the Community energy policy is conceived, must not lead to overlooking the problem of the Community's energy relations with the other energy consuming countries. This, together with the Community's relations with the energy exporting countries, which will not be discussed here, constitutes one of the principal factors at issue.

But it was essential, before examining what could be done together, to define clearly the limits and alternatives facing the Community.

II. Energy cooperation between the Community, the United States and Japan

The question may be broken down, admittedly in a rather schematic way, as follows:

- the reasons for cooperation
- the general principles and limits to be respected
- the areas of cooperation
- the framework.

(a) The reasons

The chief reason is that the Community, the United States and Japan are all dependent, at least in the medium term (in the long term the United States have their own substitute solutions, namely bituminous schists, gasification of coal, etc.), on other countries for their energy supplies, with all the economic, political and security problems that this implies.

In addition, the increasingly global scale of the energy supply question means that it is almost impossible for one country, or even one group of countries, to solve it in isolation. All individual efforts to improve a pattern of supply therefore require at least some degree of consultation with the other major consumer and importer regions.

To ensure reliable energy supplies is becoming - and in the foreseeable future will remain - a responsibility which the governments of the consumer countries can no longer evade. Were they not to cooperate, this responsibility would lead them to competitive bidding and finally into a clash.

The task of establishing or improving relations between energy importing countries should begin by consultations between Europe, the United States and Japan. These three regions - which represented about 60% of world energy consumption in 1970 and will again do so in 1985 - account for an even greater proportion of world trade in energy products (80% of world energy exports absorbed by these regions in 1970, and again in 1985).

To these reasons may be added two others bound up with the world responsibilities of these countries. First of all, either an energy crisis or an increase in energy costs would be equally harmful to those developing countries which have no resources of their own, and could irretrievably jeopardize their economic expansion. On the other hand, particularly in the light of the present monetary crises, it is acutely obvious that misuse or inadequate control of the financial resources of the oil producing countries can completely disorganize and permanently undermine the world monetary system.

(b) General principles and limits of cooperation

The European Economic Community has already made it known unofficially that it favours energy cooperation with the United States and also the extension of this cooperation to the world's other great energy importer, Japan.

The primary aim of such a policy is to eliminate futile or disastrous outbidding between the importer countries in their attempts to secure supplies, especially from the Middle East. The proposed cooperation can also help to avoid excessive waste of financial resources on individual

projects in such important fields as scientific and technical research, environmental protection and rational use of energy. It can also speed up the achievement of the desired results.

Being founded on the principles of non-discriminatory treatment and complete reciprocity of commitments, this cooperation should not inhibit the Community or lead to the unilateral dependence of Europe or Japan on the United States, whose industrial power, financial strength and unity are likely to give them the dominant role in the proposed consultations. In other words, in the desired cooperation, Europe should retain its personality, and be able to implement its own measures and make its own choices. To safeguard its personality in the energy field, Europe must either acquire this personality beforehand or else take this opportunity to define it more precisely, as was recommended by the Heads of State and Government of the enlarged Community in October 1972.

Europe's personality is already apparent in the relations it maintains and may hope to pursue with the developing countries, some of which are exporters of energy, and of hydrocarbons in particular. Geography and history affect these relations, as does the awareness of the mutual benefit to be derived from an increased interdependence of the Community's markets and the developing industries of the producer countries. Fostered by flexible and frank consultation, this trend is bound to serve the general interest.

However, the objective of cooperation between consumer countries must not make the Community forget its weak points vis-à-vis the United States and the economic and political risks implied.

The American oil companies hold a large share of the European market on average about a third (transport by pipeline, refinery and distribution); this has indirectly hampered the development of the European companies. There could therefore be danger for Europe if the US companies, for reasons of profitability (which have changed already and could change still further), were to reduce their production to such an extent that imports of low-sulphur fuel oil refined in Europe, and their impact on European prices, well illustrate Europe's sensitivity to American market phenomena via the large US oil companies.

On the international level, US strategic and political commitments, especially in the Middle East, may constitute an indirect threat to supplies of hydrocarbons to Europe. This is due in particular to the increasing role which US companies are playing both in the producer areas and in the Community's supply lines.

These same strategic and political factors are tending to encourage certain countries in this region to establish privileged relations with the United States, thereby prejudicing supplies to other consumer countries.

This underlines the need both for close cooperation between the consumer countries and for the assertion by Europe of some political presence in the Middle East, if only by way of more developed economic and social cooperation.

- Finally, in the nuclear sector, Europe is still too dependent on US technology. With the exception of K&U, all Community suppliers of L& nuclear plants depend on the technology of three US firms: General Electric, Westinghouse and Babcock-Wilcox. A less serious, but comparable, situation is found in the fuel cycle industry. As for the recent US decisions on the prices and terms of sale of enriched uranium, they are an indication perhaps isolated, but none the less very striking of the reasons for Europe's and Japan's fears as to what might happen if there are no consultations with the US and also as to what obligations and limits such consultations should involve.

On the other hand, the proposed consultations should not look as if they were creating a "block" of energy importing countries as against the "block" of energy exporting countries, and even less as if they were a defensive reaction of the industrialized and affluent countries. It must be made clear that although this cooperation is designed to improve the conditions of supply of the consumer countries it stems above all from a desire for stability and controlled development, for the ultimate benefit of both the exporting and the importing countries. Furthermore, this cooperation must not prevent the establishment of

more favourable relations between consumer and producer countries, which could be achieved, for instance, by a kind of commodity agreement on energy between all concerned; this would particularly favour the expansion of the developing countries with no energy resources and the stabilization of the international monetary system.

C. Framework for consultations between the Community, the United States and Japan

Consultations should be as diversified as possible and could, at least theoretically, embrace almost all aspects of energy policy.

1. The objectives of cooperation

The main concern of energy policy at the present time is not so much cost but how to ensure reliable long-term supplies capable of adjusting to the expected increase in demand. The question is thus how to avert crises and how to cope with them if they occur.

Coping with momentary interruptions in supplies is - judging by the recent past and, even more, by the foreseeable future - a matter which demands our attention. It requires close consultation between the Community, the United States and Japan concerning emergency stocks and the circumstances in which they are used, with a view to a harmonized rationing system and perhaps also an arrangement whereby transport facilities and available resources can be provisionally pooled.

The avoidance of crises is even more essential. It can be achieved both by improving the present rules of the game and by modifying the factors in a short-term economic situation marked by excessive dependence on certain hydrocarbon producing countries.

The rules of the game must be improved by increased consultation between governments, and between governments and companies, when a crisis threatens. The changes that have taken place in the oil sector where the producer

countries now hold fundamental responsibilities, mean that the governments of the importing countries must be more fully informed of the intentions of the companies before and during any negotiations they may embark on. It is no longer tolerable that negotiations - and an obvious example will be what happens when the Teheran and Tripoli agreements are renewed - should be conducted without the participation of the consumer countries which bear the ultimate consequences. Through close consultations, the producer countries would be clearly informed of the responsibility assumed by the consumer countries, and this would be bound to facilitate the position of the companies.

The risk of crises would also be perceptibly reduced if consultations between the energy consuming countries could lead to greater diversification of resources and the development of new sources of energy. Diversification of resources will require, in particular, encouragement of prospecting in new areas such as the ocean floor and the continental shelf, where the degree of risk and scale of investment may call for financial support from the governments in view of the potential increase in security that they represent.

As for the development of new sources of energy, efficiency and success in this sphere will largely depend on a concerted and harmonized policy of scientific and technical research, to avoid overlapping and to speed up certain projects, if necessary with direct financial assistance from the public authorities.

Finally, it is probable that the development of coherent and better defined energy policies, through consultations between the Community, the United States and Japan, will help to clarify the situation and reduce the risks of crisis.

2. Procedures for cooperation

Cooperation could take the form of systematic information, harmonization of energy policies where necessary, and specific cooperation projects.

(a) Information

This must entail a systematic and far-reaching effort, especially in the following fields:

- mutual and immediate information on the current energy situation and estimated trends; this could lead to periodic joint reports on the energy situation and its problems;
- regular examination of the results achieved by public bodies and private industry in their efforts to develop energy resources;
- information about any specific problem which could be more easily solved by joint action on the part of the energy importing countries;
- information about measures taken or planned which might alter the supply situation; this information should cover the structure of the energy industry and market operating conditions; it could also provide an opportunity for joint reflection on the role, possibilities and responsibilities of the industry.

(b) Harmonization of energy policies

An effort should be made to harmonize certain aspects of the domestic energy policies of the Community, the United States and Japan. In particular, common safety standards could be envisaged for energy plants, especially in the nuclear sector. Similarly common specifications could be adopted for products, notably the maximum content of noxious substances (lead and sulphur), which would help to solve environmental problems and also avoid difficulties on consumer markets. Finally, as stated earlier, harmonized compulsory stockpiling policies and concerted arrangements for rationing, administering and allocating available resources when necessary, should be an excellent way of coping with crises.

With regard to external energy policies, some harmonization is needed in order to prevent the Community, the United States and Japan from engaging in unbridled competition, futile outbidding and a scramble for oil very prejudicial to our interests.

In cooperation with the companies concerned, the public authorities should consult each other on the supply policies they intend to adopt or to pursue in the various regions possessing energy resources. The advantages of such consultations are obvious but the practical procedures are difficult: it is hard, for instance, to imagine any rigid allocation of resources between the main importing regions now that these resources are increasingly in the hands of the producer countries. At all events, no consultations should be organized without the governments of our countries first adopting a common attitude towards the oil companies, and the means to ensure that this attitude is respected.

Finally, with an eye to future negotiations between the producer countries and the companies, particularly on the question of taxation, the Community, the United States and Japan should at least coordinate, if not harmonize, the general and preliminary instructions which they will then be giving the companies.

(c) Specific cooperation measures

In certain fields it seems possible to go further than information and harmonization.

For instance, the vast domains of environmental protection, the rational use of energy and scientific and technical research offer so many prospects for joint cooperation that it would be futile to seek to enumerate them. The following topics may, however, be instanced:

- desulphurization
- motor vehicle emissions

- technical processes for improving output or reducing consumption
- coal gasification
- nuclear explosions for storage purposes and, more generally, the possibilities of creating large underground reserves
- use of new resources.

Bearing in mind also the need for ever increasing and more diversified hydrocarbon resources, we should envisage cross-financing for oil prospecting on the continental shelf and ocean floor, either in the countries concerned (North Sea, US or Japanese continental shelf areas) or elsewhere (Canada, Venezuela, USSR).

Finally, cooperation is needed above all in connection with nuclear energy, to make it a more reliable energy source and to give it a more rapid and more prominent place in the pattern of supply. Here too there are numerous fields where cooperation is possible, the main ones being reactor safety, uranium enrichment, construction of breeder reactors, and the possibilities of fusion and the use of nuclear energy for non-electrical purposes.

(d) Framework for energy consultations between the Community, the United States and Japan

To be effective and ensure the best possible cooperation, this framework should be very flexible and allow maximum contact. Consultation procedures are too diversified for an immediate institutional framework to be either possible or useful. It will take its own shape with time.

It is, however, clear that the cooperation must be amply accompanied and inspired by advice from energy producing and energy consuming circles in our various countries. It must also encourage and be based on contacts between the industrial circles of our countries which, with financial, technological and research facilities at their disposal, have the privilege and responsibility of being in practical daily

contact with reality.

With regard to relations between the public authorities, a specific body should be set up for periodic policy consultations between the energy officials of the Community, the United States and Japan.

Finally, energy cooperation should fit into a context of more general consultations covering monetary matters, world trade and certain aspects of foreign policy. These general consultations between the Community, the United States and Japan are an ambitious undertaking, in which energy consultations - because of their urgency and the apparent widespread agreement thereon - can constitute one of the corner stones.